

OFFICIAL FILEILL. C. C. DOCKET NO. 00-0437 PREPARED DIRECT TESTIMONYCILCO Exhibit No. 2.0**OF
STEPHEN UNDERWOOD**

Witness _____

ON BEHALF OFDate 03/23/01 Reporter CB**CENTRAL ILLINOIS LIGHT COMPANY
DOCKET NO. 00-0437**

- 1 Q1. Please state your name and address.
- 2 A1. Stephen Underwood, 300 Liberty Street, Peoria, Illinois 61602
- 3 Q2. By whom are you employed and in what capacity?
- 4 A2. I am employed by Central Illinois Light Company (CILCO) in the position
- 5 of Staff Engineer – Gas Operations Business Unit.
- 6 Q3. Please describe your educational background and work experience.
- 7 A3. I was graduated from Bradley University in 1981 with a Bachelor of Science
- 8 Degree in Mechanical Engineering. I was graduated from Bradley University in
- 9 1988 with a Master of Business Administration. I am a licensed Professional
- 10 Engineer in the state of Illinois. I have been employed by CILCO since 1982.
- 11 I have held various positions of responsibility in Gas Operations. In November
- 12 1999, I was assigned to the Gas Operations Business Unit. In November 1999 I
- 13 was given the responsibility to oversee the Company's remediation activities for
- 14 the manufactured gas plant sites.
- 15 Q4. What are your responsibilities with respect to manufactured gas plant (MGP)
- 16 sites?
- 17 A4. I have direct responsibility for the MGP site investigations and remediations and
- 18 coordination between various support and operating areas.
- 19 Q5. What is the purpose of your testimony in this proceeding?

20 A5. I will identify and describe the status of CILCO's former manufactured gas plant
21 (MGP) sites and provide the five-year budget forecast numbers and cost estimates
22 for each site. My testimony explains the Tiered Approach to Corrective Action
23 Objectives ("TACO") and its relationship to CILCO's four-phase approach to the
24 clean-up of the sites. I will describe the reasonable and appropriate investigation
25 and remediation practices performed at least cost and review the requirements of
26 the environmental laws applicable to the clean-up. My comments will describe
27 efforts from January 1, 1999 through December 31, 1999. The purpose of my
28 testimony is to demonstrate that CILCO has acted prudently in its coal tar clean-
29 up efforts.

30 Q6. Please identify the former MGP sites where CILCO incurs or may incur costs.

31 A6. CILCO continues to investigate and/or monitor four former gas manufacturing
32 plant sites (MacArthur Boulevard, Springfield, Illinois, Persimmon Street, Peoria,
33 Illinois, Front Street, Pekin, Illinois and First and Washington Streets, Springfield,
34 Illinois) located within CILCO's present gas service territory. CILCO previously
35 owned a fifth MGP site that was sold in 1993.

36 Q7. What is the status of the Company's remediation efforts at these sites?

37 A7. Remediation is complete at Persimmon and a no further remediation letter
38 ("NFR") was received February 2, 1999. Groundwater monitoring is being
39 performed there as required by the IEPA in the NFR letter.

40 Extensive remedial activity was completed prior to 1992 at the Macarthur site. In
41 1998, CILCO purchased a second back-up pump and established routine
42 inspections and maintenance procedures for the groundwater collection system. In
43 April, 1999, the Company filed a Remedial Action Completion Report and a

44 Remedial Objectives Report for MacArthur as required by the IEPA's Site
45 Remediation Program. In its initial review, the IEPA requested a change in the
46 report as filed, taking exception to certain soil borings that had not met required
47 soil attenuation capacities. To resolve that issue, additional samples were taken in
48 June, 1999, which confirmed that the soils had been removed during remediation
49 activities. After review of the additional information from the new samples, the
50 IEPA accepted the reports. A No Further Remediation Letter was issued to
51 CILCO for the MacArthur Boulevard site on January 27, 2000.

52 The Pekin site is owned by ADM of Decatur, Illinois. CILCO obtained
53 permission to perform site investigation activities at the site from ADM. After
54 evaluating proposals from environmental engineering firms, CILCO selected a
55 consultant for the site investigation phase of the project. A Phase I report was
56 received during 1999. In November & December, Phase II activities were carried
57 out at the site. Those included test pits, monitor wells & soil samples.

58 No remediation has taken place at the 1st and Washington site in Springfield
59 because the site is still under investigation to determine responsibility.

60 Q8. Why is CILCO cleaning up MGP sites?

61 A8. CILCO is required by federal and state law to investigate and remediate MGP
62 sites. Specifically, under the Comprehensive Environmental Response
63 Compensation and Liability Act (CERCLA) and the Illinois Environmental
64 Protection Act, liability for remediating MGP sites extends to any current owner,
65 any entity that operated a MGP site at the time of disposal, and any successor in
66 interest to such entities. Subject to these laws, CILCO is legally responsible in
67 total or part for the investigation and remediation at these sites.

68 Q9. What agency oversees CILCO's investigation and remediation responsibility?

69 A9. The Illinois Environmental Protection Agency (IEPA) reviews the required
70 reports for MGP work that are submitted pursuant to the Site Remediation
71 Program. The IEPA has accepted CILCO's plan to proceed with MGP site work
72 on a one-site-at-a-time basis.

73 Q10. Please describe the phases of a MGP site clean-up.

74 A10. There are typically four phases to clean-up. The phases are not necessarily
75 separate and sometimes overlap in implementation. Phase I is a historical records
76 research and an on-site inspection. The purpose of Phase I is to identify the site
77 and to determine whether the site poses any immediate threat to human health or
78 the environment. Phase II involves a more detailed investigation of the site.
79 Invasive and non-invasive sampling of the site is performed to determine the
80 types and extent of contamination which may be present. It also involves an
81 investigation (known as a risk assessment) of the populations at risk from
82 contamination which may be present at a site. Phase II is often referred to as the
83 investigation phase. The results of the investigation phase provide an evaluation
84 of the risks posed by the site based upon the contaminants present and the
85 populations exposed. The next phase, Phase III, is often called the feasibility
86 study phase. The study considers various remedial options, and evaluations are
87 completed to determine which options can most efficiently accomplish certain
88 clean-up objectives to achieve acceptable levels of risk posed by the site. This
89 determination includes least-cost considerations consistent with a remediation
90 process that will permanently resolve the problem without causing undue risk
91 during the process. Once the best alternative is selected, Phase IV, remediation,

92 can begin. The remediation activities may include: no action, isolating the site,
 93 placement of engineered barriers or institutional controls, monitoring or pumping
 94 and treating the groundwater, excavation of contaminated soils or sources of
 95 continuing contamination, incineration or landfilling of the excavated materials,
 96 biological treatment of contaminated materials, or restricting access to the site to
 97 prevent further risks.

98 Q11. Please describe the Tiered Approach to Corrective Action Objectives ("TACO")
 99 and how TACO relates to CILCO's four-phase approach.

100 A11. TACO is a set of Illinois Pollution Control Board regulations that allows a tiered
 101 approach when a remediation applicant in the State's Site Remediation Program
 102 ("SRP") determines its Remedial (corrective action) objectives for soil
 103 remediation or groundwater remediation. The SRP involves four reports to be
 104 filed with the IEPA for review and approval. The following table compares the
 105 reports required under the SRP to the four phases that are described in my
 106 previous answer.

Site Remediation Program Report	Phase/ content
Site Investigation Report	Phases I and II - Environmental Site Assessment (Both phases are combined.) Historical records research/site inspection/sampling
Remedial Objectives Report (required if site investigation reveals evidence of one or more contaminants of concern)	Phase III tasks - Remedial Investigation & Feasibility Study – i.e., determining pathways, receptors, property use, remedial objectives as to risk
Remedial Action Plans (demonstrating the planned actions will achieve the	Pre-Approval of Phase IV work (the remedial corrective action,

Remedial Objectives)	which could include soil removal or on-site treatment, engineered barriers, institutional controls, groundwater pumping and treatment, etc.)
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Remedial Action Completion Report	Post-approval of Phase IV work
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107 CILCO transferred the MacArthur, Persimmon and Pekin sites into the SRP
108 program during 1997. Pekin will be CILCO's first site under the SRP from the
109 initial investigation, but full participation in the program requires the written
110 consent from the property owner.

111 An advantage of the TACO program is the potential for the remediation to be
112 carried out at a lower cost than would otherwise occur under the State's previous
113 program.

114 Q12. Please describe steps taken at CILCO's MacArthur Boulevard site during 1999.

115 A12. The Company's environmental consultants, Krueger Engineering & Sciences took
116 quarterly samples from the sump discharge and also baseline samples from
117 original monitoring wells. That firm prepared for IPEA review the remaining
118 reports required by the Site Remediation Program. It was necessary to
119 demonstrate that certain samples met IEPA guidelines, so soil borings were taken
120 in June of 1999. After review of that information, CILCO's request for a No
121 Further Action Letter was approved. As a preventive control, CILCO must
122 maintain the engineered barrier and operate the groundwater collection system
123 until certain groundwater parameters are met. During 1999, CILCO repaired the
124 asphalt at the site and landfilled soil that was removed during construction
125 activities at the site.

126 Q13. Please recap expenses for the MacArthur Boulevard site for 1999.

127 A13. In 1999, total costs for the MacArthur Boulevard site were \$424,575. These
128 expenses consisted of \$86,080 for environmental consulting & site expenditures
129 and \$338,495 for legal services incurred for insurance claim/lawsuit recovery
130 actions.

131 Q14. Please update activities at the Persimmon Street site.

132 A14. The IEPA issued a No Further Remediation Letter in February of 1999. CILCO
133 continues to sample the remaining groundwater monitoring wells.

134 Q15. Please recap expenses at the Persimmon Street site for 1999.

135 A15. In 1999, CILCO spent \$377,299 on Persimmon Street related work. These
136 expenses consisted of \$338,659 for legal services related to the insurance lawsuit
137 and \$38,640 for consulting, laboratory, and IEPA oversight fees.

138 Q16. Please recap expenses at the Pekin site for 1999.

139 A16. In 1999, total costs for the Pekin site were \$369,232. These expenses consisted of
140 \$30,573 for environmental assessment and \$338,659 for legal services incurred
141 for insurance claim/lawsuit recovery actions.

142 Q17. Please recap expenses at the First and Washington site for 1999.

143 A17. In 1999, total costs for the First and Washington site were \$338,630. These were
144 for legal services incurred for insurance claim/lawsuit recovery actions.

145 Q18. What efforts has CILCO made to obtain reimbursement for MGP site
146 environmental liabilities from its insurers?

147 A18. The Company is currently pursuing the recovery of some or all of its potential
148 investigation and remediation costs associated with its MGP sites from various
149 insurance companies who have issued policies to CILCO. Jones, Day, Reavis and

Pogue represent CILCO as legal counsel in this matter. CILCO filed a complaint in June of 1997 in the Circuit Court of the Tenth Judicial Circuit, Peoria County, Illinois, as case No. 97 MR 197, against several former insurers to recover some or all of the potential costs of MGP site investigation and remediation activities. The names of the insurance companies that CILCO is currently pursuing are as follows:

- American Home Assurance Company
- The Home Insurance Company (and its successor-in-interest REM)
- Certain Underwriters at Lloyd's London and Certain London Market Companies
- Insurance Company of the State of Pennsylvania
- International Insurance Company (successor-in-interest to International Surplus Lines Insurance Company)
- Lexington Insurance Company
- Manhattan Reinsurance Company (successor-in-interest to Martin Reinsurance Company)

The parties are currently in the midst of the discovery process. Discovery is scheduled to be completed by the end of 1999. Settlement discussions with some of the parties have begun. The case is tentatively set for trial in the summer of 2000.

Q19. Please provide the five-year budget forecasts for investigation and remediation costs by MGP site.

A19. Subject to various timing and technical issues, including approvals from the IEPA and conditions that may be encountered during investigations or remediation activities, the following represents the five-year budget forecasts for investigation and remediation expenditures by CILCO at four former MGP sites.

<u>SITE</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
1 ST & Washington	\$150,000	\$12,500	\$12,500	\$12,500	\$12,500
MacArthur Blvd.	180,000	37,500	57,500	37,500	37,500
Pekin	230,000	62,500	312,500	32,500	32,500
Persimmon St.	<u>160,000</u>	<u>27,500</u>	<u>27,500</u>	<u>27,500</u>	<u>27,500</u>
TOTAL	<u>\$720,000</u>	<u>\$130,000</u>	<u>\$410,000</u>	<u>\$110,000</u>	<u>\$110,000</u>

176 Obviously, actual costs may be greater or less than the above estimates.

177 Q20. Has CILCO attempted to estimate a range of costs that may be required to manage
178 the environmental obligations at each of CILCO's MGP sites?

179 A20. No, but CILCO's outside insurance recovery counsel did engage the services of
180 an environmental consulting firm to prepare such an estimate to support CILCO's
181 efforts to maximize coverage, and insurance reimbursement, for these liabilities.
182 The result of that effort is considered by CILCO to be privileged from disclosure
183 under the attorney-client and/or attorney work-product privileges.

184 Q21. Please provide remediation cost estimates by MGP site.

185 A21. Remediation Technologies, Inc. ("RETEC"), at the request of CILCO's outside
186 insurance recovery counsel, Jones, Day, Reavis & Pogue ("Jones Day"), has
187 prepared remediation cost estimates attributable to four former MGP sites. Jones
188 Day requested that these estimates be prepared specifically for the purpose of
189 assisting Jones Day in advising CILCO in anticipation of litigation and for no
190 other purpose.

191 The RETEC cost estimates were prepared using a probabilistic methodology and
192 certain assumptions. In the methodology used, rather than choosing a single site
193 management scenario and estimating costs for that scenario, a set of scenarios
194 were identified, and probabilities of implementation were assigned to each
195 scenario. The overall site management cost was calculated by appropriately

combining the cost of each scenario identified, weighted by its probability of implementation. In addition, at any particular site, the values of many of the parameters relevant to the cost estimates for each scenario may not be precisely known. The methodology used allows the specification of these parameters as probability distributions, rather than single values. Numerical techniques were used to combine all cost parameters and generated a probability distribution for the overall cost of environmental management at each site.

Subject to the above and other assumptions and methodologies utilized by RETEC, Attachment 1 represents the minimum and maximum cost estimates to remediate the four former MGP sites. Obviously, actual costs may be greater or less than the above estimates.

Q22. Were all of the costs recoverable under Rider Tar in 1999, prudently incurred?

A22. Yes, the costs were prudently incurred as described in my testimony and met prudence standards defined by the Commission. These are (1) reasonable and appropriate business standards, (2) the requirements of other relevant state and/or federal authorities, (3) minimization of costs to rate payers consistent with safety, reliability and quality assurance, and (4) facts and knowledge the Company knew or reasonably should have known at the time the expenditures were made.

CILCO has identified those MGP sites that it has, or may have, responsibility to remediate. CILCO has assigned a priority to those sites and is addressing the remediation of the sites one site at a time. CILCO has consulted with the IEPA, which has approved of CILCO's approach to the investigation and remediation of these MGP sites.

219 CILCO follows appropriate procedures to secure competitive bids for the work
220 that is performed at the MGP sites. CILCO also has staff personnel monitor all
221 work performed at the MGP sites to ensure that it is done in accordance with
222 appropriate standards.

223 CILCO has engaged counsel to assist in the recovery, if possible of insurance
224 proceeds available for the MGP site investigation and remediation activities.

225 Q23. Does this conclude your prepared direct testimony?

226 A23. Yes, it does.

CONFIDENTIAL

Attachment 1

**CENTRAL ILLINOIS LIGHT COMPANY
DOCKET NO. 00-0437
RETEC COST ESTIMATES**

(INFORMATION SUBMITTED UNDER SEAL)

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

ILLINOIS COMMERCE COMMISSION
ON ITS OWN MOTION,

VS.

CENTRAL ILLINOIS LIGHT COMPANY

RECONCILIATION OF REVENUES COLLECTED
UNDER COAL TAR RIDERS WITH PRUDENT COSTS
ASSOCIATED WITH COAL TAR CLEAN UP
EXPENDITURES

No. 00-0437


AFFIDAVIT OF STEPHEN UNDERWOOD

Stephen Underwood, being first duly sworn on oath, deposes and says as follows:

1. I prepared and am familiar with the contents of CILCO Exhibit No. 2.0 which bears the title "Prepared Direct Testimony of Stephen Underwood" and CILCO Exhibit No. 2.1 which bears the title "Supplemental Direct Testimony of Stephen Underwood." My answers to the questions appearing in such exhibits are true and correct to the best of my knowledge and belief.
2. CILCO Exhibits No. 2.0 and 2.1 were prepared by my or pursuant to my direction; I have reviewed and am familiar with their contents, and these Exhibits truly and accurately portray the information set forth therein.
3. Further Affiant sayeth naught.


Stephen Underwood

SUBSCRIBED AND SWORN TO
BEFORE ME THIS 9th DAY
OF APRIL, 2001.


NOTARY PUBLIC

